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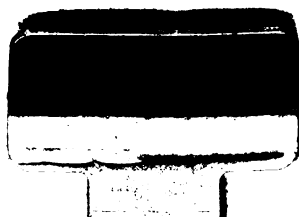
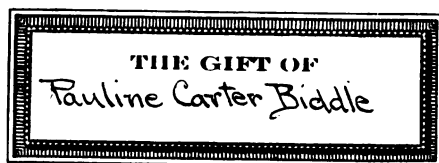
BY

MAURICE DUFOURMANTELLE

TRANSLATED FROM THE FRENCH

BY

PAULINE CARTER BIDDLE



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of the Translator.*

AGRICULTURAL CREDIT 134

BY

MAURICE DUFOURMANTELLE

TRANSLATED FROM THE FRENCH

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AGRICULTURAL CREDIT.⁽¹⁾

I.

General Theory of Co-operative Credit. Example of Foreign Countries. The French System. What should be Done.

FIRST ATTEMPTS TO ORGANIZE PEOPLE'S CREDIT IN FRANCE.

We shall doubtless surprise nobody in stating that France was one of the first countries where the idea of applying co-operation to credit originated, but which nevertheless was one of the last, where it was put into practical use.

This is frequently the case with us. We have many ideas, there is even boldness in their conception, then when it comes to applying them in the realm of fact, a strange timidity is evident, or at least an insufficient sense of present contingencies. The history of people's credit, in France, offers a striking example of this frame of mind.

In 1857, the first co-operative urban credit society ⁽²⁾ was founded in Paris, by some workmen, and called "Banque de Solidarité Commerciale," (Bank of commercial joint responsibility), based on the principle of savings and mutual aid. The idea of agricultural credit had not yet originated.

⁽¹⁾ Under this title we give a summary of the theories and precepts which were the subject of several lectures we had the honor to deliver during March, 1908, at the headquarters of the Union Centrale des Syndicats des Agriculteurs de France.

⁽²⁾ I have used the terms credit society and credit bank interchangeably, such associations being so called indifferently in Great Britain. (Translator's Note.)

It is estimated that in the course of the following years, nearly 200 similar societies were founded in Paris and the provinces. The impetus seemed given, yet thirteen years later, in 1870, nothing remained of this ephemeral movement; for in fact the idea had strayed almost at the start from its original purpose, in some instances, through lack of specific training in those interested, they seeing in co-operative credit only a means of substituting for salaries a system of co-operative earning, based on production, and by their inexperience and impatience mutually compromising these two forms of association; in other cases, and this was more serious, the funds served to foment strikes and support workmen's coalitions.

Is it to be wondered at, that institutions directed in this way, should have proved failures of which some were notorious? Is it surprising either that the cause of people's credit, discredited by these failures, should then have been obliged to wait nearly twenty years before again finding in France partisans and promoters?

EXAMPLES FURNISHED BY FOREIGN COUNTRIES.

While the French co-operators frittered away their time, their efforts and their money, co-operative credit was patiently and consistently building up in neighboring countries, with a clear view of means and end and on a solid basis, a movement which has constantly increased and expanded from the beginning and of which the marked success excites to-day our admiration and envy.

Prussia was the centre whence the original idea of co-operative credit, conceived and applied from the beginning in its exact and final form, spread over all Europe.

Schulze-Delitzsch and Raiffeisen gave their names to this system, the former in carrying it out more particularly in urban centres, the latter realizing it midst rural populations, and this happened about 1848, nearly ten years before the first attempt, to which we have referred, in France.

From Prussia the idea extended, little by little, to all the other nations of Europe. Austria adopted it in 1851. The same year, Hungary attempted its first experiments. In 1864, Belgium inaugurated its special movement, by founding the People's Bank at Liège, while at the same time in Italy, through the incentive of Signor Luzzatti, similar banks were instituted at Milan and Lodi. The example gradually became contagious and the movement extended with varying success to Russia, in 1866, to France, in 1883, to Scotland, in 1889, to Ireland, in 1894 and spread to the youthful Balkan States, Roumania, Servia, Bulgaria and finally crossing the seas, the idea took root in Syria, under German influence, in the Antilles and India, through that of England, in Algeria, Tunis, Isle of Réunion and Canada, through that of France.

Such was the marvelous growth of those small but vigorous roots, from which the first shoots sprouted, some sixty years ago, at Delitzsch in Prussia Saxony and Flammersfeld on the Rhine!

Three countries that appear to me typical from different points of view—I mean Germany, Italy and Hungary—deserve our particular attention.

1. *Germany*.—Germany is without doubt the classic field of co-operative credit, formerly its cradle, and to-day the centre of its greatest development.

By January 1st, 1907, 15,000 (exactly 15,602) co-operative credit societies, comprising an army of 2,113,653 members, were already furthering the unremitting activity of commerce, manufacture and agriculture. The number of these associations moreover does not cease to increase from month to month.

If we consult the latest statistics of the principal federations ⁽¹⁾ for the years 1905-1906, we find for 13,946 urban

⁽¹⁾ General Federation Schulze Delitzsch (Annual for 1906), Empire Federation of Agricultural Co-operative Societies at Darmstadt (Annual for 1906), General Federation of Manufacturing Co-operative Societies at Berlin (Annual for 1906).

and agricultural co-operative credit societies, with 1,797,000 members, the following round numbers:—

Capital	Fr. 302,000,000
Savings put to work.....	2,500,000,000
Credit granted during the financial year	5,700,000,000
Reserve fund.....	145,000,000

It is rather difficult to ascertain exactly what proportion of this prodigious supply of capital, placed at the disposal of national industry, is devoted to agriculture, as the People's banks make also agricultural loans but do not distinguish them in their statistics from those granted to commerce and manufacture. It can, however, be estimated, without fear of exaggeration, that agricultural credit participates in the general German movement to the extent of about two billion francs!

How far are we in France from such results!

Moreover, during the ten years I have studied and followed the co-operative movement of our German neighbors, I have admired less its constant progress, than its well-planned and solid organization, which has rendered such a remarkable expansion possible. We will take as an example in support of our statement, the imperial Federation of Agricultural Co-operative Societies, whose headquarters is at Darmstadt, and which is directed, with so much authority and success, by Counsellor Haas.

The plan of this powerful organization, in its essential features, is as follows:—

As a foundation, 16,800 federated agricultural co-operative societies for credit, buying, selling production, &c., of which 11,896, are local banks for loans and savings. During my travels in Germany, I have more than once come in contact, and this in regions very different in customs and economic de-

velopment, with some of these associations. I have been impressed everywhere by the striking evidence of mutual confidence which characterizes them, the habitual self-control shown by the majority of the associates and, at the same time, by the almost invariably just and discriminating business sense of the presidents and directors.

These primary associations are not left without support. They form a secondary group of 41 provincial or district unions, that co-ordinate their efforts by bringing them together and inspiring them with a common purpose, the general assembly of each union uniting annually the representatives of the local societies. In the interval, contact is maintained with the latter, not only through incessant correspondence, advice and consultation with the provincial office, but also by the visits of travelling professors and inspectors. Finally, 73 central societies, divided between the provincial unions, complete from a practical business standpoint the moral efficiency of the latter. Of these 73 central societies, 36 centralize in each province or district the purchase of initial products and working implements, and the sale or transformation of products, whereas the 37 others are district credit societies or banks, whose duty it is to ensure the clearing of capital and the transmission of loans between the local credit banks of their jurisdiction. In 1905, for the whole of their business, the total turnover of 35 of these district credit banks amounted to three and a half billion francs.

The third group, or Imperial Federation, completes and perfects this whole organization. Towards it converge all the provincial elements, the unions maintaining contact with the head office of Darmstadt, the district credit banks uniting, some with the Central Agricultural Bank of the Co-operative Associations (headquarters at Darmstadt), others, with the Central Bank of Agricultural Credit of Neuwied. These two central organizations transacted business, in 1905, for more than a billion francs.

This, in its essential lines, is the organization of the Imperial Federation of German Co-operative Societies. It may be characterized by stating that it unifies these scattered forces to the best advantage of the economic interests of the country, and for my part, I am tempted to compare it to the solar system, where each heavenly body has its proper function, and all by their co-ordination and mutual attraction, contribute to the universal harmony!

What we have said of the Darmstadt Federation might almost as well be said of the other great Federations that participate in the German co-operative movement, be it the Raiffeisen Federation of Neuwied, or the Schulze-Delitzsch Federation of Berlin, or even the more recent federation of co-operative industrial associations directed by Dr. Mager at Berlin, but we have said enough, we think, to show how ardent and keen the sense of responsibility is among the German co-operators. I will moreover give to the entire movement the highest praise in stating that it is, in its origin and entire organization, a pure outcome of independent private initiative.

For nearly fifty years, the government in Germany took no part in the co-operative movement; or at least did not intervene, otherwise than legally, in granting it an organic charter by the excellent law of May 1st, 1889.

But, in 1895, a new influence was felt in certain Prussian rural districts. The agrarians of the north, the squires of the eastern marches, always in quest of official protection and privileges, demanded the intervention of the State in favor of agricultural credit, and the Prussian government, acceding to the wishes of this powerful party, presented and passed the law of July 31st, 1895, establishing for Prussia a central Bank of co-operative credit societies.

In France, where the financial aid of the State is so marked a feature, the Prussian example of 1895 has frequently been cited in support of this system. Nothing could be more inac-

curate. Without going into details, I will simply mention the fundamental difference between the two standpoints. With us the funds that agricultural credit employs are mostly supplied by the State; the Prussian Central Bank, has, on the contrary, only received from the State for its transactions, an original capital subscribed and guaranteed by 3% Prussian government funds and it, as central clearing establishment utilizes the temporary surplus entrusted to it by the Agricultural Banks, and the People's and Savings Banks. In other words, the French system deals with shares of State capital supplied to credit banks run by private initiative, whereas the Prussian method causes independent capital to be put to work by a State Bank.

The German co-operators, at least the great majority of them, did not allow themselves to be influenced by this intervention of the State. The Schulze-Delitzsch Federation is positively hostile to it, seeing in it a possible impediment to the sense of initiative. The Raiffeisen Federation, less absolute, utilizes the Central State Bank in so far as its own central Bank of Neuwied does not suffice for its needs, but regards it simply as a supplementary organization and not as a necessary part of the machinery of co-operative credit. Finally the Darmstadt Federation shares these views in as much that it did not hesitate to found after the institution of the State Bank, a central independent Bank for its affiliated associations, in the hope that the day might come when the latter would enable them to dispense with the State foundation, and it is with pardonable pride that the independent Bank shows the comparatively modest figure of 400 millions put to work by its own central pay office in opposition to the 10 billions handled by the official central establishment.

2. *Italy*.—The organization of people's credit, in Italy, will not detain us long. The remarkable work on the subject done by the eminent President of the "Centre Fédératif," mem-

ber of the Institute, Monsieur Eugène Rostand, and by my distinguished colleagues, Messieurs Rayneri, de Rocquigny and Mabillean, render it unnecessary for me to repeat their vivid description of this splendid movement. ⁽¹⁾ So my intention is simply to relate its latest improvements and most recent tendencies. We had the good fortune to visit Northern Italy last October (1907) and assist at the Congress of People's Banks and the International Co-operative Alliance, held at Cremona. We returned deeply impressed not only by the immense vitality of Italian co-operation in that part of the peninsula, but also by the bold spirit of innovation, combined with great prudence, of which all co-operators there gave evidence, as much those of the liberal party whose glorious and respected chief is His Excellency Signor Luzzatti, as those of the Catholic Federation of Bergamo, or again those of the Socialist Labour Exchange (Bourse Sociale du travail) of Reggio d' Emilia.

When, for example, at Portogruaro, and elsewhere, we find the agriculturists, united, becoming manufacturers of superphosphates, to escape from the exactions of the trust of manufacturing producers; when at Reggio d' Emilia, we assist at the opening of a railroad, of which the building and running are in the hands of a Socialist Workmen's co-operative association, when in short, we are told that at Ravenna, there is not a single building contractor, as the entire trade is in the hands of workmen's co-operative societies, strongly organized, should we not admire the genius of a people who can afford the spectacle of a social and economic Renaissance, no less brilliant within its strict limits than that of the XVIth century was within the realm of art?

⁽¹⁾ Eug. Rostand: *Une visite à quelques institutions de prévoyance en Italie*, 1 vol., Paris, 1891; Introduction à "*Dix jours dans la Haute Italie*" de Léon Say, 1 vol., Paris, 1896; Mabillean, Rayneri et de Rocquigny: *la Prévoyance sociale en Italie*, 1 vol., Paris, 1898.

We hasten however to add that perhaps this co-operative expansion of contemporary Italy would not have been possible, or at least would have been rendered more difficult, had it not found support in an organization particularly adaptable and rich in people's credit. Eight hundred People's Banks deal in urban and agricultural credit, two hundred savings banks, employing usefully for the development of national production, a large share of the savings made by national industry, finally at the least fourteen hundred agricultural credit banks, that is, a total of twenty-four hundred institutions of people's credit,—here in reality is the nutritive and productive source whence co-operative activity, individually and collectively, draws, each year, hundreds of millions. A powerful spirit of social unity pervades all these institutions; ever ready to help each other, they form among themselves a large family and are animated one for the other by a brotherly feeling, of which they proved the depth when the foundation at Piacenza, of a central bank of agricultural credit, with an initial capital of two million francs, was proposed. The suggestion had been scarcely adopted by the Congress of Cremona, when the central Bank was eagerly sought and endowed by the Societies and Co-operative Unions. The People's Banks of Vicenza and Cremona each subscribed shares of 50,000 francs, the Federation of Agricultural Syndicates subscribed the same amount, the Agricultural Syndicate of Bergamo, 20,000 francs, &c.

In short, in less than a week the subscriptions already amounted to 500,000 francs!

What cannot be expected of a co-operative movement capable of demonstrating its faith in the idea by such spontaneous impulses, and sufficiently wealthy to realize it, by giving money with so much ease?

3. *Hungary*.—Italy has afforded us a remarkable example of what free private initiative can accomplish, unhampered by any intervention of the State. With the "National Cen-

tral Credit Union," founded 1898, in Budapest for the kingdom of Hungary, we shall find ourselves, on the contrary, in the presence of a state and governmental institution.

The example of Hungary is often quoted by the partisans of state aid, in support of their doctrine, and theoretically they are not wrong; but in order to keep the question within proper bounds, it is well to ascertain the limits of this official intervention and show in what measure it has been carried out.

This Union, or Central Hungarian Credit Bank, is not exclusively a state institution, as has sometimes been erroneously asserted. It is rather more a composite organization, constituted between the co-operative credit Societies, and to which the state contributes, the sum total amounting to 4 million kronen ⁽¹⁾ at the most. In fact, when this central Society was organized, the shares of the founders (individuals and local societies) represented 3 million kronen, whereas the share of capital allotted by the government amounted only to one million kronen. Since then the founders have increased their subscriptions and the state, has not, to my knowledge, done likewise.

These explanations are of a nature to reduce the force of the state example. But there is more, for in the mind of the Hungarian legislator, "the final aim is that in time the National Central Credit Union shall become the exclusive property of the associations adhering to it, and which are its ordinary members." ⁽²⁾

Therefore extreme moderation in accepting state aid, primary and provisional character of this aid, gradual substitution of the federated societies to the State and, finally, the exclusive appropriation of the institution by these associations in the future—this is the exact scope of the Hungarian legislator's intention.

⁽¹⁾ Krone, a little over a franc, roughly 21 cents. (Translator's Note.)

⁽²⁾ Comte de Mailath: *Les Associations de crédit populaire en Hongrie*. (Bulletin du Crédit Populaire, 1907, p. 333 et suiv.)

THE SITUATION IN FRANCE.

Sometimes the date 1899 is given as being that of the inauguration of agricultural credit in France, the law establishing State financial aid in our branch having been passed that year, but in reality co-operative credit had been implanted previously in our country, through the efforts of private initiative, and if the State contributed towards its development, which we willingly recognize, by means of its financial intervention and the special service established at the Ministère d'Agriculture, historical honesty obliges one to acknowledge that the merit of starting the movement, of classifying and expounding the fundamental principles, and of furthering still to-day their diffusion among those interested, is due to independent private initiative.

In fact, from 1889 must be dated the definite awakening of France to the idea of co-operative credit. It is true that several admirable foundations had been previously organized, such as the People's Bank at Mentone, founded in 1883 by our colleague Monsieur Rayneri, or that of the Agricultural Credit Society of Poligny started in 1885 by Monsieur Milcent, both in full prosperity still to-day, but these with some other institutions, in various parts of the country, were only isolated and scattered efforts, that were not connected with any general movement.

At Marseilles, in 1889, with the assistance of the few existing institutions, a first congress of people's credit was organized by some political economists interested in the question, Monsieur Eugène Rostand presiding.

A central office for study and propaganda was established, which adopted as a programme, the laying down of fundamental principles, that were compiled by means of the observation of foreign practices; its object was also to spread this knowledge among the circles interested, and to further the institution of

credit societies; this central office assumed shortly after its present title of "Centre fédératif du crédit populaire de France."

(¹) Some years later a member of the bar of Lyons, Monsieur Durand, founded a second centre of action, independent of the first, under the title of "Union des caisses rurales et ouvrières à responsabilité illimitée." With these two central organizations, co-operative credit was prepared to take root in our country, to increase and multiply. (²)

As secretary of the "Centre fédératif," I may be allowed to state briefly what has been done in the last 18 years by this association. Fourteen Congresses have been held, of which one met in Algiers. Manuals for local and district agricultural banks and people's banks published, a periodical Bulletin and pamphlets for disseminating the idea issued, model statutes of various sorts drawn up, a simple form of bookkeeping established, and the registers given gratis to the affiliated societies, an enquiry office of which my colleagues and I know the value, searches made in Italy and Germany, active propaganda by pen and word, finally useful intervention with the public powers and the legislator, these are the essential features of the work done by the "Centre fédératif." Its action has extended to Algiers, to Tunis and even to the Isle de la Réunion, and one can estimate its influence by the fact that actually nearly 900 Societies are affiliated with it.

Moreover, to prove the spontaneous origin of agricultural credit, one need only refer to the first general statistics which we drew up in 1900. We noted at that time 641 local credit societies in France, some affiliated with the "Centre fédératif," others with the Lyons union or remaining independent. It is

(¹) President, Monsieur Eugène Rostand, membre de l'Institut; central office at Marseilles, 14 rue Montaux.

(²) Recently, in March, 1908, the district agricultural credit banks have constituted a "Fédération nationale des Caisses régionales de crédit agricole mutuel"; office in Paris, 84 rue de Grenelle.

clear that so rich a harvest could not have been the result alone of one year's application of the law of March 31st, 1899.

No! to deny the work of independent private initiative in this matter would be absurd, to pass it over in silence, unjust, and every impartial historian of co-operative credit in France must render it due homage. ⁽¹⁾

We have stated what has been the work of private initiative in France. Let us now see in what consists the financial intervention of the State.

This consists in placing at the disposal of the district agricultural credit banks, established by the law of March 31st, 1899, as a temporary and gratuitous advance, a lump sum of 40 million francs and a yearly contribution of about 3 million francs, paid to the State, by the Bank of France, as the price of the renewal of its privilege granted in 1896. It is estimated that when the privilege of the Bank of France expires, more than 100 millions will have been placed, in this way, at the disposal of French agriculture.

So that these millions may reach the rural producer by means of the local banks, 90 district agricultural credit banks have been established throughout the country, and by their medium, 1700 local affiliated agricultural banks, share in the official funds advanced.

Moreover, the State, or rather the Government, by means of the official professors of agriculture and through the board

⁽¹⁾ This is what is done by Monsieur Drake, formerly député, in an exhaustive essay published by the *Revue politique et parlementaire* (number of March 10th, 1908): "If we should class the works of co-operative credit according to their merit, the first place would rather belong to that union of rural credit banks of Lyons, or that Centre fédératif, that by their own efforts organized themselves and endeavored by a personal propaganda to further the economic education of their fellow citizens, and caused credit to flow like a refreshing spring in a number of small channels." It is, however, to be regretted that Monsieur Drake should have by mistake called the "Centre fédératif" the "Centre fédératif du Sud-Est," whereas a few pages before he gave it its real name of "Centre fédératif du crédit populaire."

of agricultural credit established at the Ministère d 'Agriculture, contributes also towards propagating the idea and the foundation of local credit banks. In this respect, its action runs parallel with that of private initiative, each mutually completing the other. Actually, about 2500 co-operative agricultural credit societies, in France and in the Colonies, are the result of this double movement, and one cannot but hope that the efforts to spread it may co-ordinate and strengthen both in unity and harmony.

WHAT SHOULD BE DONE.

All we have just said will enable us to make a comparison between France and foreign countries, and to draw from this parallel certain conclusions in order to determine the course it is our duty to pursue, starting from the standpoint of private initiative, which is our department.

In the first place what do we find within the limits of State intervention?

In Hungary, the State aid amounts to the moderate sum of one million kronen. In France, to what will eventually amount to more than a hundred million francs.

In Prussia, a State organization completing without effective official financial aid the action of a flourishing private initiative. In France, a system unlike any of those existing in the other great co-operative nations, a system which consists in subsidizing a still youthful agricultural credit with gratuitous official capital.

Within the limits of private initiative, the parallel between France and foreign countries, affords a no less instructive lesson.

Germany has shown us an incomparable expansion of powerful and prosperous institutions, classed in strongly organized groups, to which they contribute their varied abilities and from which they in return derive new financial power and acquire

fresh moral energy. German co-operators have proved what can be accomplished with time, with patient faith, with scrupulous respect for principles, with, in short, such confidence in self and in self help, *Selbsthilf*, that they did not hesitate to found their own independent Central Bank opposite a State central establishment.

Italy affords us a similar example, less complete in results, but perhaps more striking, owing to the diversity of methods employed, when we find national savings furthering people's credit by means of 2400 varied institutions due to private initiative, that are ever ready to help each other mutually, without asking anything from the State.

We are less fortunate in France than happy Italy; our laws, above all our customs, neither authorize nor demand an extensive decentralized use of savings. We are even scarcely aware that our legislation admits of our having, in a given measure, recourse to the savings banks, and as for that, it must be acknowledged, the savings banks, with the exception of certain ones, like those of Marseilles and Lyons, that one finds at the head of every improvement—care in general but little about people's credit which they ignore.

Less convinced than the Germans of the necessity of concentrating economic forces, we have multiplied the federations. Each branch of agriculture has its own, independent of the neighboring one; in the same branch there are sometimes several—this may cause a loss of vigour, or be a source of rivalry; of moral antagonism or economic competition—and those that have the development of agricultural co-operation at heart, must wish that these different federations may be brought closely together, and that they should combine their efforts.

But it is above all important to rouse initiative, without doubt existing in our country, but too often hesitating. Those concerned must be brought to know themselves, to understand also their duty, and to acquire confidence in their own exer-

tions. Let us teach them to keep up their effort, to persevere in the work undertaken. Let us try to convince them that nothing enduring is done in haste, that time is required to implant new institutions firmly in rural customs, but that the aim is all the more rapidly attained when these institutions are founded on sound and manly principles.

And now, if we wish to apply these general ideas to agricultural credit, this is the social duty incumbent upon us.

We should each, within the range of his influence, become active propagandists of agricultural credit, according to the established guiding principles.

Let us show the rural population that without overlooking or disdaining the advantages of State aid to agricultural credit, they must not however count exclusively on this official help, and that it is in themselves, in their own efforts, in the manly consciousness of their capacity and sense of responsibility, in the decentralized use of local savings, that the secret of lasting success lies.

Then when we have succeeded in starting foundations, we must not leave them to themselves, we must follow them, and by our advice save them from mistakes always possible during the first years. Let us bring them together through district unions, and organized federations, so that they may participate in the same life, and be governed by the same principles.

When we have accomplished this task, and induced others to do likewise, not only will our consciences be at rest, but we shall also have demonstrated that France, in the matter of private initiative, is neither inferior to her German neighbor nor her Latin sister!

The uses to which rural credit may be applied.

In referring to the diverse applications of which agricultural credit is susceptible, I will point out its object, show the services it can render, and cause, I hope, its benefits to be appreciated.

My remarks will bear successively on the application of agricultural credit to the requirements of agriculturists considered individually, and on its collective application, that is, on its adaptation to the requirements of syndicate or co-operative associations, which farmers organize among themselves. It is scarcely necessary to add that my observations will all be based upon the practical experience I have acquired in these matters, as secretary of the "Centre fédératif," or as president of the "Groupe régional de l' Ile de France." In default of other merit, they will therefore at least have that of experience.

But a remark of a general character is first necessary.

The wants which credit may be called upon to supply are infinitely varied. Should co-operative credit come to the rescue of this one and that one without distinction? A distinction must be made between credit to be granted for the purpose of creating new wealth, or an increment of riches, and that which on the contrary would only serve to satisfy a want, sterile, from an economic standpoint.

In the first instance credit is termed production credit and in the second case, consumption credit. As much as the first is to be encouraged and is profitable to agriculture, the latter is dangerous and should be set aside.

In reality when the farmer borrows to buy fertilizers to manure his field, the result of his transaction will be a better crop, which will enable him to recover the amount of his loan and make a profit over and above. Credit, in this case, will have served to produce an increase of economic wealth, representing at least the equivalent of the amount lent, and in con-

sequence, the farmer, his crop sold, will have an increased gain on hand, which will enable him to return the loan easily. In such an hypothesis, credit is useful, since it helps the producer to increase his wealth; this is also a safe transaction, as the equivalent is recovered in the crop it has contributed to produce.

The position is quite different when the question concerns consumption credit. For instance, the agriculturist borrows to pay his baker. When the debt is settled, what will be left as an equivalent of the loan which enabled him to make this payment? Nothing. The loan granted will purely and simply have been spent, and instead of enriching him, the borrower will have only substituted one creditor for another. It can readily be understood what risks there are in such sterile credit, and moreover it is sufficient for us to state, in order to reject it from the list of our observations, that it is in nowise agricultural.

APPLICATION OF AGRICULTURAL CREDIT TO PERSONAL NECESSITIES.

1. *The struggle against usury.*—The utility in some sort elementary, of agricultural credit, consists in shielding the small farmer from usury, to which he so often falls a victim when he wishes to procure the necessary resources for his enterprise.

In the country, when usury is mentioned, peasants generally shrug their shoulders and pretend it does not exist, so great is the false shame which prevents them from acknowledging they are victimized by it. According to their statements they could easily find good credit at 4%, which is the ordinary rate charged by the agricultural banks. Even admitting this is true, agriculturists would still find an advantage in applying to the co-operative societies instead of village lenders, for they would leave the

profit of the transaction to their association, instead of letting it pass into an outsider's pocket. But the truth is, in many localities, the agriculturists and especially the small farmers, have great difficulty in finding an honest loan at a moderate rate of interest.

Oh! without doubt, usury does not openly reveal itself by excessive rates of credit! It is hidden beneath inoffensive appearances.

I remember having received several years ago in the Pyrénéan district, some quite suggestive confidential communications. The lender was the local tavern-keeper. Each loan was granted at 5% with a commission over and above, but at every renewal, rate and commission increased; then at all visits made by the borrower, there was a forced opportunity to drink with his host and chance companions some bottles of wine, the price of which must be added to the rate of interest paid. At the end of the year the loan cost 15 or 20%!

If the matter could be investigated in our country, I am quite convinced one would find a number of districts in France where rural usury is more rife than one thinks.

Usury under the form of money loans is moreover, perhaps, not the most frequent nor the most to be dreaded. The most dangerous is that which is paid in kind, without letting itself be seen, under cover of the sale on credit, even gratis, of manure, seeds, cattle. The vendor in such cases causes the apparent service to be dearly paid for, as he reimburses himself the credit granted, either on the quality or the quantity of the merchandise sold, or else he puts in the contract clauses entirely to his own advantage, which place the agriculturist in his power or at his mercy.

In this order of ideas, the agricultural syndicates have rendered marked service by having a moralizing effect on the trade of fertilizers and grain, and in a great measure stemming usury, which was practised under cover of this traffic. But I dare not

say that they have caused it to disappear altogether. At all events they were unable to get the better of it in what concerns the cattle trade, as the Code Civil lends itself to it by its prescriptions on the cheptel (cattle lease).

At our Congress at Reims in 1902, our lamented colleague, Docteur Boiteux, president of the Credit Bank of Baume-les Dames, gave us some typical examples, which deserve to be repeated here. "A bullock of two years, estimated at 260 francs is leased (cheptel simple) for a year, Sept. 1st, 1901. Sept. 1st, 1902, he was sold for 360 francs. Each party received therefore 50 francs—this is an investment for the lessor of more than 15%. And what fell to the profit of the lessee? During this time the bullock could not be harnessed, except to accustom him to the yoke, he did no useful work and made away with more than 50 francs of the lessee's fodder—that is to say, he absorbed all the latter's profits. Where a cow of 300 francs is concerned, it is stipulated in our contracts in Franche-Comté, that the calf shall not be sold until six weeks old, that is, when it will be worth 70 or 80 francs. This is an interest of 35 or 40 francs on 300 francs, which is then and there almost certain to fall to the share of the lessor, moreover we are speaking here only of cattle leases (cheptels) properly drawn up. But our farmers are exposed to a still more shameless usury, of which we must say a word. They in fact frequently buy cattle on credit, from cattle dealers, generally of Semitic origin, who operate in the following manner; as before we will quote an established fact, which is worth more than many explanations. A small farmer comes to buy a horse from one of these dealers. This merchant goes to the neighboring fair and purchases an animal for 440 francs. He sells it the next day to the customer for 750 francs, on notes, with interest at 5%. To secure himself against the proprietor or other creditors, he exacts from the lessee a cattle lease (bail à cheptel) including the horse and another animal already in the stable,

wise precaution, the horse being only worth 440 francs! This is the usual process, and in the country with us, these occurrences are so common, that the first question asked by the board of the agricultural credit society is frequently this. "Is the applicant or is he not, in the hands of the cattle-dealers?" (1)

Similar instances were cited at our Congress of Nantes (1904) by Monsieur Avenel, professor of agriculture at Langres, who, studying the practice of cattle leasing, (*cheptel-bétail*) in our eastern provinces, estimated that in so far as cows were concerned, the lessor obtained easily 30% for his money, and that this return attained even 50% on sheep.

We might also, if our memory does not play us false, quote similar abuses in the Charentes and middle provinces.

Whatever may be its geographical limits, the evil exists, and it will not be the least service rendered by the agricultural credit banks to have caused this usury in kind to disappear, either by shielding the small farmer from the rapacity of the cattle-dealers, or in purifying the practice of cattle leasing, by the use they, the credit banks, themselves make of it, in a moderate and honest manner. (2)

2. Purchase of raw material and farming implements.

Beyond even the struggle against usury, how varied are the uses to which co-operative credit may be applied for the benefit of agricultural production! All branches of agriculture find an advantage in having recourse to it. In the northern and central provinces, it helps to increase the yield of cereals, potatoes and beets. In the eastern and western districts it furthers cattle breeding. In the south it is in a measure successful in meeting the acute situation in the wine region. The market gardeners in the neighborhood of Paris make use of it. In the

(1) See "Actes du 12eme Congrès du crédit populaire, Reims, 1902; 1 vol., 1903, chez Alcan, éditeur à Paris.

(2) The *Centre fédératif* helped in this purifying work by drawing up forms of model contracts for cattle credit (*crédit bétail*).

Cantal district they think of utilizing it for replanting trees. One sees it working its way even into the daintiest or the lowliest agricultural industries, such as the cultivation of flowers in Provence or bee raising and honey making in the Dijounais. Neither ancient Eurotas or perfumed Hymettus, had received such a gift of the gods!

From this it can be imagined to what an infinite variety of uses, agricultural credit lends itself. Here it will serve to purchase the entire quantity of fertilizers which the land requires to render its full yield. Elsewhere it will be called upon to help procure selected seeds, live stock which will be resold after fattening, farming implements, vines for planting, young fruit trees, or even the coal needed for horticulturists' hot houses or forcing houses. It will serve also to pay the hands employed in ploughing or harvesting, without the necessity of displacing investments or holding funds for this purpose, to the detriment of farming expenses, properly so called.

Without doubt to make farmers understand the benefit they could derive from an intelligent use of agricultural credit, a certain time is requisite and great perseverance on the part of promoters. How often, for instance, I have heard countrymen justify their shyness in regard to agricultural credit by saying they always pay cash for their fertilizers! It was true, but what they did not say was that they manured their land according to the capital which they had in hand and not according to its requirements. Credit would have enabled them, on the contrary, to put on their land, not only what they were able to give it, but still more what it needed for its fullest development.

But also what profits the farmer can make with agricultural credit judiciously handled!

Listen rather to this anecdote of a small cultivator of "Eure-et-Loir." (1)

(1) See *Bulletin du Crédit populaire*, 1906.

"Eight years ago," said he, "I was down and did not dare to borrow large sums; yet one can do nothing without money, whereas with money, in agriculture, certain paying deals can be made and those by means of agricultural credit. Here is the proof. In 1898, I borrowed 100 francs to buy two unweaned calves, which I fattened and sold for 330 francs. In 1899, the credit bank lent me 150 francs to buy a sow, she shortly after gave me eight little pigs, which I sold for 202 francs 40 centimes, keeping the mother. In 1900, I needed a mare for my work, my purse contained 300 francs, about the price of an old animal which might possibly have done my work, but without bringing in anything. I preferred borrowing 300 francs from the credit bank—with my 600 francs I bought a young mare for 565 francs which I sold at the end of two years for 910 francs. In 1901, I borrowed 200 francs to purchase a cow. I kept this cow two years, she gave me two calves and I sold her, about to calve, for 330 francs. In 1902, in the month of November, one of my cows miscarried. As she gave very little milk and I had a great deal of fodder, I borrowed 300 francs to buy another. This enabled me to make a profit all winter. In 1903, I wished to buy fertilizers and change my crop. I borrowed 200 francs with which I bought several kinds of fertilizers, and particularly some nitrate. I sowed the latter for the first time on one hectare 25 ares ⁽¹⁾ of oats, to my great surprise the yield was 42 bags, that is 17 bags to the arpent ⁽²⁾. In 1904, in the month of December, I borrowed 300 francs to help pay the lease of my land, this loan enabled me to keep a mare, which I needed to work my oats the following spring. Finally in September, 1905, I borrowed 240 francs for six months. With this money I purchased twelve sheep which I sold in January, 1906, for 408 francs. They had cost me, in bran and oats, 76 francs;

⁽¹⁾ Hectare = 100 ares = 2 acres, 1 rood, 35 perches, or nearly 2½ acres. (Translator's Note.)

⁽²⁾ Arpent, about $\frac{2}{3}$ of an English acre. (Translator's Note.)

my net profit therefore in four months was 92 francs, and I could still keep the sum borrowed for two months."

I wished to give this example in detail, not only because it proves what an intelligent countryman, full of initiative, can do, but also because it shows the adaptability and the variety of uses to which agricultural credit lends itself.

One must not think however from this example that our institutions are useful only to small agriculturists. No—from the small to the great—all have interest in making use of them, and I need no other proof of what I state than that furnished me by the series of credit banks of the Isle de France district, where we find along with small loans of 200 and 300 francs, loans amounting to 6000 francs and over.

3. Regulating the price of agricultural produce.

Moreover it is not only at the yielding period that agricultural credit is useful to the farmer.

When the harvest is over, the crops must be sold, but if prices are low, is it not preferable to hold until they rise? But how could the agriculturist wait, if without the credit bank at his command, he counts only on the sale of his produce, to begin his work for the following year? It is a well known fact, that after the harvest or vintage is over, the prices on the market have a tendency to weaken, by reason of the large supplies on hand. To counteract this falling of rates, the Syndicates, the credit Federations, and the permanent Committee for the sale of wheat, dispensed their advice to the agriculturists, instructing them to hold their offers, so as to regulate the market and prevent the falling of prices—in all places where this counsel was acted upon, the rates remained firm and farmers sold for higher value without moreover suffering the slightest inconvenience, while they waited, the credit banks having enabled them to meet all immediate farming expenses.

To prove our statement we will quote two striking examples among a hundred.

Here is the first taken from the department of the Alpes Maritimes, where some years ago the olive crop was below the average. The growers, anxious to sell, threw their supply in quantities on the market, and owing to the falling rates, lost the benefit of the profit they normally should have made, by reason of the scarcity of the product. The olive growers of a district where there was a credit bank, united in a common determination to hold their olives—they waited until they became scarce and at the propitious moment sold at the figure they wanted. In the meantime the credit bank had enabled them to meet the expenses of their industry.

This is the second example taken from the neighborhood of Chateau Gontier ⁽¹⁾. It is that furnished by a farmer who owed a sum of 1500 francs. To cancel this debt he had it is true 500 boisseaux ⁽²⁾ of wheat for sale, but prices were low; it was in October, our man preferred not to sell and borrowed for three months from the credit Bank his 1500 francs at 4½%.

In December prices having risen he sold his wheat and realized a net gain of 133 francs over and above the interest on his loan.

These are in some sort scattered not concerted examples of the personal use to which agricultural credit can be put, their object being to protect the individual against the pressure brought to bear on prices by wholesale dealers in agricultural produce. But if the resistance of agriculturists becomes general, and they unite to sell their crops in proportion as the need on the market is felt, they will then lay down the law to purchasers, instead of submitting to their dictation—they will regulate, by their union and their discipline, the current rate of produce. Now, in one case as in the other, agricultural credit, as we have just seen, is the effectual means, which enables them to attain their end.

⁽¹⁾ See *Bulletin du Crédit populaire*, 1906, p. 407.

⁽²⁾ Boisseau, a peck and a half. (Translator's Note.)

APPLICATION OF AGRICULTURAL CREDIT TO COLLECTIVE REQUIREMENTS.

Besides these varied uses to which agricultural credit can be put individually, practice reveals other very interesting examples of a collective character. The legislator has recognized their economic scope, by granting recently two special laws—on the one hand the law of December 29th, 1906, on long term loans to the agricultural co-operative societies, and on the other, the law of January 14th, 1908, extending to the members of agricultural mutual insurance societies, the right to found credit banks among themselves for the purpose of facilitating agricultural operations carried on by these insurance societies.

Here moreover, as in the case of personal credit, private initiative had forestalled that of the legislator. Long before the law of 1906, the agricultural credit banks had practiced collective credit with success, and a very attractive notice of these operations had been already presented, in 1902, at our Congress of Reims by my distinguished colleague Comte de Rocquigny.

The question may be examined from the triple standpoint, that of the Syndicates, the insurance Societies and the co-operative Associations.

1. *Agricultural Syndicates*.—The main function of agricultural syndicates consists in the purchase in common of large quantities of fertilizers, that are distributed afterwards among the members in proportion to their requirements. Certain Syndicates make their purchases in advance, others on the contrary according to the orders of the members, centralized at certain seasons. In both cases, it is to the interest of the Syndicate to pay cash for its orders, so as to reap the benefit of the discount which it allows its members. But this cash payment would lead one to suppose that the agricultural syndicate possesses sufficient funds for the purpose, acquired either through the dues

of its associates or its accumulated reserve fund. This is the case with some large syndicates already mature and prosperous; it is not the case with the majority of them.

It is then that the credit Bank intervenes usefully in lending to the Syndicate the amount required, precisely as it would advance to a private individual. The Syndicate signs in the name of one or more of its administrators, according to the by laws, a note payable at three months to the agricultural credit Bank, in exchange for the borrowed sum, and if the Syndicate wishes to protect itself against its own members, nothing prevents it from drawing a bill on each one of them for the amount corresponding to his share of the order for fertilizers. Then when the notes fall due, the Syndicate repays the credit Bank by means of the sums thus collected, and if certain members in order to discharge their obligation, require to prolong the notes, the Syndicate only has to renew the loan for a corresponding amount, either by negotiating, at the credit Bank, bills drawn on the members in question and accepted by them, or else in making payable to the credit Bank one or more new notes endorsed by its (the Syndicate's) own debtors.

Many Syndicates do business in this way, and I do not know that any of them have had cause to regret it.

Certain agricultural Syndicates however do not care to deal with collective credit properly speaking. They prefer, whilst making a collective bargain for fertilizers with the contractor, to place as their substitute, each one of their members unable to pay cash for his share of the supply, directly in contact with the agricultural credit Bank, whose loan is thus divided from the start, into a certain number of personal loans.

But what in these two hypotheses deserves to be borne in mind is, that the intervention of the credit Bank takes place in favor of a collective operation of syndicates and it has been found that these collective operations of syndicates, based upon agricultural credit, were among the most effective methods of

implanting co-operative credit in rural circles which hesitated previously to make use of it.

The purchase of agricultural implements, which the Syndicate places at the disposal of its members, is also one of the most frequent and most appreciated services rendered by the agricultural Syndicates. Here again for the purpose of making the purchases, the Syndicate may have recourse to the credit Bank.

In the case of implements of little value, such as pulverizers, stills, carts, &c., the operation is simple and a few months suffice for the Syndicate to repay the loan, as much from the hire of the implements to its members as from their dues.

The transaction on the contrary is much more delicate where the acquisition of expensive machinery, such as steam or petroleum threshing machines, is concerned. The loan then amounts to several thousand francs, which it would require a certain time to repay. In calculating the yearly instalment, the interest upon the loan must be taken into consideration, the probable cost of repairs, the rent of a shed for the machine, the premiums of insurance against accidents, and also (when they are not directly at the expense of the lessee) the expenses of the operator and the cost of fuel. All this should be most carefully looked into by the Syndicates and the credit Banks, before closing the bargain.

Experience also shows the necessity of great circumspection in drawing up the syndicate rules in connection with the use of the machine, in making the list of those members that are to lease it, and deciding the measures to be employed and proper delay to be granted, for recovering the sums due by agriculturists.

It cannot be said that actually, by reason of the systems tried, the guiding principles of this operation have been definitely settled, however as a result of the ventures made in the various departments, le Nord, l'Yonne and in l'Ile de France notably, the methods have begun to be somewhat more clearly

defined, and at all events this special credit transaction deserves the attention and sympathy of the Banks and agricultural syndicates

2. Mutual insurance. Since the law of Jan. 14th, 1908 was passed, it has been debated how agricultural credit could serve to further or to guarantee the operations of agricultural mutual insurance societies.

The question is in fact new, and does not at first sight appear to be very clear, but the future will without doubt show in what measure, more or less extensive, co-operative credit and mutual insurance can combine and help one another. It will suffice for me to state briefly what connection already has been established between these two different kinds of institutions.

In the beginning, it was insurance and particularly cattle insurance, that intervened to strengthen and support agricultural credit. It can easily be understood that the agriculturist whose stable or barn is insured, offers a much better guarantee and a far more definite standing, than one who is not so protected. Cattle insurance (*assurance bétail*) therefore increases the individual standing with regard to credit, the same as fire insurance increases the collective standing with regard to credit of the syndicates that own their real estate.

On the other hand, credit can help agricultural mutual insurance societies, by advancing on short terms, the sums required to pay for accidents, at the time the premiums have not been paid—in other words in creating a casual and temporary cash fund. Operations of this nature have already been transacted to my knowledge in the Vendée and the department of the Seine. They are very simple and at the same time safe, for always at the end of a few months the premiums being paid the mutual insurance society is able to repay the loan. The only precaution necessary for a credit bank to take in such a case, is not to lend a sum superior to the premiums to be paid during the year.

3. Agricultural co-operative societies.

The joint action of the credit banks, with the operations of agricultural co-operative societies, constitutes the third and most ticklish part of collective credit.

This concurrence may take place in two hypotheses.

Some times it will consist in the credit Bank procuring advances on reasonably short terms for a co-operative society, so that a cash fund may be created; or the bank discounts the society's bills drawn on their clients.

Then again its object will be to grant loans at a long maturity in view of building operations, the purchase of stores, or the fitting up of machinery. This second category of loans requires nearly always a long time and deals with large sums.

What renders credit operations in one or the other hypothesis particularly delicate, is, that they are closed with institutions subject to somewhat heavy commercial risks, and in competition with similar capitalist enterprises that do not hesitate to try to destroy them. We have known something of this in my district of l'Ile de France, where loans were granted to several co-operative creameries—one of them, which had not sufficient funds, was obliged to sell out, beaten by the united wholesale milk people. Thanks to the precautions taken, the district credit Bank of l'Ile de France, and the local credit bank interested, were the only creditors that were repaid their loan in full without losing a farthing. But it remains none the less true, that this venture proved the risk of such collective credit, showed the necessity of infinite prudence in this respect, and the advantage of strong guarantees. It even made some people think that as much as possible the mingling by the same society of risky credit to agricultural associations with those of ordinary agricultural credit, should be avoided.

Germany gives an instructive lesson on this head. As a general rule, credit operations with co-operative societies for the sale, production or transformation of agricultural products, are

confined by them to special credit banks of the primary category, so as not to compromise the prosperity of ordinary credit, by the commercial risks inherent to the operations of agricultural co-operative societies. It is only in districts where there are no such special banks, that the ordinary credit banks agree to grant this sort of commercial agricultural credit, and even then they do it with the greatest reserve.

In France, I think this distinction between ordinary credit and collective credit to co-operative societies, has only been applied in the Basses Pyrénées, where several mill-bakeries were successfully organized with a special credit bank.

The law of Dec. 29th, 1906, on advances on long terms to agricultural co-operative societies, due to the generous initiative of Monsieur Ruau, Minister of Agriculture, did not see fit to follow the path traced by the German and Pyrénéan experiences. The operations of collective credit on long terms are entrusted to the district credit banks, even doing away in such instances with the necessity of an intermediate local bank. In spite of our sympathy with the idea from which this law sprang, we, as far as we are concerned, prefer the German and Pyrénéan principle of specializing. But we must add, that nothing in the provisions of the law seems to prevent either the optional intervention of special local banks, guaranteeing operations on long terms, or the realization of these operations by special district credit banks. ⁽¹⁾ Whatever moreover may be the application of the law of 1906, it none the less confirms and proclaims the utility of collective agricultural credit.

⁽¹⁾ The essay of Monsieur Rieul Paisant on "La loi Ruau sur les avances à long terme aux coopératives agricoles," in the *Bulletin du Crédit populaire*, year 1907, p. 102.

III.

Guiding Principles of the Organization (2) and Working System of Agricultural Credit.

LEGAL DISPOSITIONS.

Local agricultural credit banks may be placed either under the rule of common law, that is, according to the prescriptions of the Commercial Code and of the law of July 14th, 1867 (Title III) modified by the law of August 1st, 1893, or else under the special privilege established by the laws of November 5th, 1894, and of January 14th, 1908. Each of these systems has its advantages.

The common law allows societies of agricultural credit to be formed between all those persons wishing to associate themselves, without exacting that they should previously be members of this or that agricultural association, or even that they should all be agriculturists—the agricultural character of the society lies, in such instances, less in the quality of the persons composing it, than in the object it pursues, and in the nature of its operations. This legal rule has the advantage of permitting associates to be recruited from various social classes; thus encouraging the bringing together of different classes in rural circles, but on the other hand it enjoins rather complicated formalities for its constitution, and somewhat heavy expense.

From this double point of view, the special law of November 5th, 1894, is more advantageous as we will presently demonstrate. But in return it limits to a greater extent the choice of

(2) We will occupy ourselves in this last part of our work only with ordinary agricultural credit on short terms. Concerning the working of collective agricultural credit on long terms in favor of agricultural co-operative societies, we refer the reader to the special law of December 29th, 1906, and to the very detailed decrees of May 30th, 1907, and August 26th, 1907, that insure their fulfilment.

associates, in the sense that only the agricultural syndicates and the members of those syndicates (Article 1 of the law of 1894) and since the law of January 14th, 1908, the agricultural mutual insurance societies, governed by the law of July 4th, 1900, and the members of those societies, can belong to the society of agricultural credit. The idea of the legislator in making these conditions, was to place the agricultural credit bank on a clearly agricultural and professional basis, and also to admit of their recruiting members from existing societies already accustomed to the practice of association.

This latter consideration, which is not without weight, when it concerns credit banks grounded on mutual insurance societies, (law of January 14th, 1908), was also to the point in 1894, when the first syndicated agricultural credit banks were about to be instituted in connection with the agricultural syndicates; but since then it has lost part of its utility, in so far as the credit banks of the syndicate category are concerned. In many instances in fact, the syndicate, upon which the credit bank must be grafted, is instituted at the same time as the latter for form's sake and simply to obey the law, therefore not bringing to it any vital pre-existing element.

We think we may conclude, from this statement, that if the conditions imposed by the law of November 5th, 1894, for the constitution of agricultural credit banks, is justified historically by the diffusion of agricultural syndicates at that time, it is to-day frequently only an artificial requirement, destined, without doubt, to be done away with in the future. Already the law of January 14th, 1908, has extended the range of agricultural credit. The day that France, following the example of certain foreign countries, will have an organic co-operative law, the restrictions imposed by the law of 1894 and 1898 in constituting it, will no longer have reason to exist.

The institution of an agricultural credit Bank, grafted on a pre-existing agricultural Syndicate, is a peculiarity of the

French legislation of November 5th, 1894, but agricultural credit banks can perfectly well be founded, quite independently of any syndical basis, that is to say among co-operators unconnected with an agricultural syndicate. This latter system is practised in Italy and Germany, and even in France, where certain credit banks, instead of placing themselves under the special control of the law of 1894, preferred to institute their credit bank according to the common law for co-operative societies, that is to say, in compliance with the rules of the Commercial Code and of the law of July 24th, 1867. On the other hand, there are in Germany quite a large number of rural credit banks that are at the same time credit societies and agricultural syndicates; these two organizations are thus united in the same institution.

FUNDAMENTAL PRINCIPLES.

As the loans of co-operative credit societies must be granted principally according to the general standing of the borrower, it is essential that the agricultural credit bank should carefully recruit its members, and be in a position to know, as exactly as possible, the status of its customers. This would be all the more easy if the founders were few in number and its circumscription somewhat confined.

Promoters of credit banks occasionally take pride in starting their institutions with a certain show, endeavoring to found them with an imposing number of associates. This is not always a sound policy. To admit too many members at first, may open the doors to doubtful, even dangerous, elements, which may some day have to be eliminated. We think it preferable, on the contrary, to begin with a restricted and carefully selected membership, for instance fifteen or twenty convinced founders of good standing in the neighborhood. These would certainly only wish to recruit associates worthy of belonging

to the credit Bank, which carefully organized in this way, among persons well known for their honesty and respectability, would thus rapidly acquire the sympathy and confidence of the public.

Moreover, in selecting a not too extensive district, promoters would find it less difficult to recruit the staff-members and borrowing customers, for within a limited range the personal worth of people can be more easily ascertained, and the risk of making mistakes is, by this means, reduced to a minimum. It is therefore recommended to confine oneself to one or two neighboring parishes.

It is also useful to found cantonal ⁽¹⁾ credit banks, on condition that the market, which is held periodically at the chief town, make it a business centre for the district, thus putting the agriculturists in communication with each other and enabling them to become mutually acquainted. If these conditions are not forthcoming, the foundation must not be undertaken, otherwise the cantonal credit Bank, as we have frequently seen, would only work in the parish (commune) where it is quartered and a few adjoining parishes, preventing, at the same time, by reason of its being, the organization of other banks in other parts of the canton—the cantonal credit Bank, in this case, centralizing rural credit and thus hindering its diffusion in all the parishes (communes) of the district. As for district credit banks (of the arrondissement or department) their range is manifestly too extensive for the moral standing of the members and borrowers to be easily ascertained and followed up, and societies so large are uncommon, but those that were founded under such circumstances were backed mostly by old syndicates of the arrondissement or department, solidly established, which in a great measure palliated the inconvenience to which we allude.

⁽¹⁾ In France the department is divided into arrondissements, these into cantons, and the canton into communes. (Translator's Note.)

The choice of the system to be adopted in organizing the rural credit banks, that is to say the extent of the personal liability of the members, is a matter of paramount importance, which must be determined by promoters.

We shall see presently that besides its associated capital, the credit society puts to work capital accrued from the rediscount of bills receivable, from loans properly so called, and deposits received. This "outside capital" will be furnished all the more readily, as the confidence of holders, financial establishments and private individuals, will be won, and this confidence the bank will inspire, not only because it is known to be well governed, or because its reserve fund is large; but even more owing to the guarantee prescribed by the by-laws.

In this respect the credit bank, founded upon the principle of a limited responsibility, affords, by its by-laws, the least guarantee, as this is confined to the associated capital subscribed and the reserve fund.

Certain societies, to increase the standing guaranteed by the by-laws, have adopted the system of what is called, divided responsibility ("*la responsabilité mixte*"), that is to say the members agree with or without mutual responsibility, according to circumstances, to be held responsible, over and above the payment of their subscription, to the amount of a certain number of times the total, either of the entire capital subscribed, or that of their own shares.

But without doubt, the credit bank best calculated to inspire confidence to third parties, is that which adopts the system of unlimited mutual responsibility (*la responsabilité solidaire illimitée*), by which each member agrees to be held liable on all his property, for all the debts of the society with third parties, provided this debt should be distributed at so much per cent. equally among them. It is evident that such a society can easily find all the capital it may need, for who would refuse

to lend a few thousand francs to a society which, through the fortunes of its members, offers a guarantee of several hundred thousand?

But the system of unlimited mutual responsibility often alarms. This is, however, without reason, for when one looks closely into the matter, one finds that each year the society carefully limits its risks, determining at the annual assembly not only the maximum of personal loans (which are always granted on personal security or some other guarantee) but also the maximum of liability the credit bank may incur in the way of deposits and loans. Each agriculturist, therefore, knows the minimum and maximum of the amount for which he will eventually be responsible, and he knows also that should a loss be sustained within this limit, he would only after all be liable for his equal share with his co-associates. Supposing even he sustained a loss, for nearly always the guarantee of the security prevents the liability from falling on the members.

WORKING PRINCIPLES.

The object of rural credit banks is to grant loans in the interest of agriculture. But with what funds will they work?

Their working capital is derived from various sources. First, from the associated capital derived from the subscription of shares, of which each one does not usually exceed 100 francs. Secondly, from loans contracted, either in the shape of advances properly so called, or the re-discount of bills receivable at the district credit banks, the Bank of France or other financial establishments, of loans which Article 10 of the law of July 20th, 1895, allows the ordinary savings banks to make them, and finally, of deposits on sight and on term made with them by the members as well as outsiders not belonging to the credit society nor to agriculture. We will not repeat here, what we said in the beginning of our work, on the fruitful utility of piling up deposits in rural credit

banks, but we will at least recall that they are their main productive source.

The loans may be granted not only to the members of the credit society, but also to the members of the Syndicate not holding shares. The law of November 5th, 1894, does not in fact require that the credit societies should be exclusively mutual, it is sufficient they should be affiliated with the syndicate to do business with the latter or its members. The same broad principle is evidently also applicable to the credit banks grafted on agricultural mutual insurance societies, in reference to these societies and their members, for the law of January 14th, 1908, places them on the same footing as the syndicate credit banks. But of course it would be different if the by-laws of the credit bank should have attributed to it an exclusively mutual character.

Though a partisan of banks based on mutuality, we think however it is well not to be too peremptory in this respect. In certain districts, rural credit took root precisely because the borrowers were not necessarily obliged to be members of the credit bank—they became so, little by little, by making use of it, and even more willingly than if they had been forced at the beginning to join the society. In the matter of rural credit, pliability and tact are never superfluous. However as these non-associate borrowers bring risks to the credit banks, without incurring any themselves, it is only fair to make less advantageous terms with them, than with the members themselves; for instance in exacting security from them, however small the loan, or in charging a higher rate of interest than to the members borrowing. We know a certain number of banks that lend at 4%, the usual rate of rural co-operative credit, to their own members, and 5% or more, to the members of the Syndicate alone. ⁽¹⁾ This difference is an invitation to non-associates to

⁽¹⁾ These rates may, however, be reduced at the end of the financial year by applying the co-operative principle of a premium to borrowers.

subscribe at least one share, so as to benefit by the lower rate of interest, and to our knowledge it has often been so understood and accepted.

The greatest prudence must naturally govern credit operations. The rural credit Bank must only lend to those agriculturists whose standing is of the highest, and who would be sure to meet their liabilities. It would be well also that among the borrowers there should be large landed proprietors, as well as the owners of medium sized and small properties; this mingling can give nothing but good results from a social standpoint, and experience proves, moreover, that societies which grant only small loans realize only small profits, and have some difficulty in concentrating a reserve fund of any importance.

Guarantees, such as the warranty (warrantage) of agricultural produce, the pledge of bonds, and above all good personal security, should guard the credit Bank from possible mistakes as to the solvency of its clients. Security is, in some sort, the touchstone of the status of the borrower, for if he can find no one to go his security, he is probably not worthy to have money lent to him.

On the other hand, neither must a rural credit Bank limit its action only to the handing out of money. It must look to the use to which it will be put, and examine whether the move is likely to be a profitable one for the borrower, or if it is beyond his means. In other words the rural credit Bank must, in this order of circumstances, be not only a banker, but a counsellor.

The loans on which interest is paid in advance, are represented by notes to the order of the lending bank, payable at three or six months, on banking days; this enables the credit Bank to increase its resources if necessary tenfold, by rediscounting. Though his debt falls due on a given date, the borrower may nevertheless free himself by paying on account in advance. Should he so wish to do, the rural credit Bank will only have to open a deposit account with him, which

reaps the benefit of the same rate of interest on deposits as that paid on the loans ; the borrower will deposit the sums to be paid on account until the entire amount of the note due is paid off.

The loan once granted, the rural credit bank must see that it is not applied to other uses than those for which it was borrowed. In this respect, therefore, the best plan, when the loan is destined for instance to the purchase of fertilizers, is to pay the purveyor directly, instead of handing over the funds to the borrower. The bank must also be strict as to payments when they fall due, and should not allow notes to be renewed too easily nor too frequently, and even then usually only after a part of the debt is cancelled.

As to the interior organization of the rural credit banks, it should be as simple as possible, and may be summed up in the following three rules—prudence in lending, supervision ever on the alert, bookkeeping always posted up and frequently inspected.

The credit bank is governed by a board of managers assisted by a secretary-treasurer. The positions are gratuitous, the treasurer, who may be chosen without belonging to the bank or syndicate, alone may receive a small consideration for his trouble. The board should meet quite frequently and at stated periods, as often as possible on market days. The managers look into the requests for loans, see to those that are outstanding, attend to those which have matured, examine the administration of the treasurer, draw up the reports both monthly and annual, as well as the yearly schedule, &c.

Certain local credit banks find it convenient to leave their accounts to the care of the district credit bank with which they are affiliated. We consider this practice defective. The local banks, which are self-governing, should carry their sense of responsibility to the extent of keeping their own accounts. It is moreover impossible that their administration should be really

